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C O N F I D E N T I A L SECTION 01 OF 04 HO CHI MINH CITY 000714

SIPDIS

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SUBJECT: PASSING OUT THE PATRONAGE: MANAGING VIETNAM'S LARGEST SOE'S

REF: (A) HCMC 712 (B) HANOI 783 (C) HANOI 654 (D) HCMC 370

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State.  
REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: According to some private business leaders in HCMC, Prime Minister Dung has used his direct authority over Vietnam's 22 largest State-owned conglomerates to both gain some level of control of these unwieldy giants and to construct a political patronage system under which every major faction within the senior ranks of Vietnam's political leadership benefits, effectively giving every faction -- even those otherwise hostile to PM Dung -- a stake in his longevity in office. Numerous other contacts have provided supporting observations. Particularly because these 22 largest SOEs control over half of Vietnam's economy, absorb the majority of all credit and benefit from the lion's share of all government investment, such a system of institutionalized abuse of authority could bode ill for Vietnam's economic future as well as introduction of true rule of law reform in Vietnam. In other corruption-related news, an ongoing crackdown on corruption among local-level officials in HCMC is gaining enough traction that many officials are resigning their posts since they are unable to live on their meager salaries. The juxtaposition of an apparent institutionalization of corruption at the top with an increasingly active anti-corruption campaign targeting lower-level officials points toward an uncertain future. END SUMMARY.

#### CONTROLLING THE PURSE STRINGS

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¶2. (C) During a private dinner with the CEOs and presidents of some of Vietnam's largest private banks and other leading private sector entrepreneurs, CG engaged several contacts in a discussion of prospects for meaningful reform of State-owned enterprises (SOEs) as well as prospects for the GVN treating SOE and private firms equally. Not surprisingly for a purely private-sector group, everyone present was uniformly critical of the SOEs, particularly the 22 giant SOEs that collectively control 52% of Vietnam's economy, absorb nearly all GVN investment and account for over 60% of all domestic and international borrowing by Vietnam. In light of overwhelming evidence that the SOEs are highly inefficient and in the face of repeated calls for their privatization or restructuring (ref C), CG asked why GVN support for the SOEs remained so strong. While various business people echoed views heard elsewhere -- that there are still many senior leaders in Hanoi whose ideology dictates that they support government ownership of a majority of the economy and that the big SOEs are too tempting from the point of view of political patronage (ref A) -- a few ventured a much more detailed analysis.

13. (C) Sacombank president Dang Van Thanh (protect) lamented that the amount of resources lavished on the big SOEs has actually been increasing rather than decreasing over the past few years, a period when reform of the SOEs was a stated GVN goal. He and Vo Quoc Thang (protect) went on to ascribe this concentration on the SOEs directly to Prime Minister Dung. (Note: Vo Quoc Thang is the owner of Dongtam Corporation located in Long An province, where he also owns a professional soccer team. Despite serving as the current head of the Fatherland Front's committee on war veterans and as a member of the National Assembly until 2006, Thang has never been a CPV member. Like a number of other private businessmen, he refuses to join. End Note.)

14. (C) According to these two businessmen, when PM Dung was working as First Deputy Prime Minister (prior to becoming PM in 2006), one of the key items in Dung's portfolio was control and reform of the largest SOEs. While Dung did manage to push through some needed reforms, the said, his main accomplishment was bringing the SOEs firmly under his direct control, with the chief executives of each of the 22 largest SOEs reporting personally to Dung. They say that Dung used this power to bring some order to the unwieldy SOE conglomerates but also to bring an end to the infighting between various political groups that had been pulling the SOEs in multiple, uncoordinated directions as they attempted to place their own members in key positions allowing access to lucrative contracts and business deals. Having gained control of the SOEs, however, Dung did not personally dominate them. Instead, he reportedly worked out an informal wealth-sharing arrangement with various factions with Vietnam's political leadership under which each grouping was allowed relatively exclusive dominion -- within limits -- over one or more of the big SOEs. In this way, Thanh and Thang explained, Dung both managed to end destructive in-fighting within the CPV over the SOEs and to link virtually every power grouping within the CPV leadership to himself.

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15. (C) When Dung became Prime Minister -- partly due to the considerable political support he had garnered through his skillful management of the SOEs -- he transferred direct responsibility for the 22 largest SOEs from the first deputy PM to himself. The system, the businessmen explained, works beautifully: because virtually every grouping within the Central Committee is benefiting from access to one or more giant SOE conglomerate as well as from the moratorium on political infighting over SOEs that Dung has engineered, every faction has a stake in Dung's longevity as Prime Minister.

#### OTHER SUPPORTING VIEWS

16. (C) While none of our other interlocutors have been quite so direct in descriptions of Vietnam's largest SOEs as being tools for political patronage, several have offered indirect support for this thesis. On the margins of a conference on good corporate governance where the CG gave the opening remarks, the former head of the State Capital Investment Corporation (SCIC -- the body that officially manages the State's shares in equitized SOEs), Le Thi Bang Tham, told CG that at the very best run SOEs, only 30 percent of the top executives of the firm had any qualifications whatsoever for his/her position. In most SOEs, she added, the percentage was even lower. The rest of the corporate leadership derives their positions from family or political relations to senior Vietnamese political figures. In a separate meeting, Bui Viet, the President of Dong A Bank Securities and an advisor to the GVN on the privatization of SOEs echoed this view, stating that the biggest impediment to privatizing most SOEs is that entrenched company managers and boards with no business expertise or other qualifications insist on retaining their positions once SOEs are converted to joint stock companies.

17. (C) Le Thien Thanh, a prominent business leader and son of late Prime Minister Le Duan, also offered supporting observations on the change in the relationship between senior

Vietnamese leaders and the SOEs under PM Dung. As reported ref B, Thanh stated that the traditionally cozy relationship between business moguls and leading politicians has now reached the point where most real business is transacted after hours in the private homes of key leaders. Similarly, former HCMC Mayor Vo Viet Thanh recently told the CG that one key reason why support for the SOEs remains strong despite widespread knowledge of their abuses and inefficiency is precisely because they provide an ideal avenue for finding lucrative positions and business opportunities for the family, friends and political supporters associated with senior CPV leaders (ref A).

#### AN ALTERNATE VIEW

18. (C) Right after returning from accompanying PM Dung on his June trip to the USA, leading businessman Dang Thanh Tam (ref D) described the management of SOEs as one of PM Dung's biggest shortcomings. Rather than ascribing this shortcoming to a desire to parcel out political patronage, however, Dung attributed the problem to the Prime Minister's weakness as a manager. Like Thanh and Thang, Tam stated that as Deputy PM Dung had been quite effective in brining the 22 largest SOEs to heel. In Tam's version of events, however, PM Dung's primary fault has been that he was unwilling to relinquish direct control of the 22 big SOEs when he became PM. As Prime Minister, Tam explains, Dung cannot possibly have the time needed to actually manage 22 conglomerates effectively. The result is that no one is in charge of the SOEs on a day-to-day basis and the top leadership at the firms are therefore able to function with no effective oversight. Worse yet, Tam added, when some ministry tries to say no to an SOE request, the CEOs are almost always able to get a vaguely worded letter of approval from the Prime Minister that they then use press their demands. Most often, Tam said, the Prime Minister agrees to sign some statement directing SOEs to undertake projects "for the good of the country."

19. (C) Tam went on to state that while the SOEs have long been large, unwieldy conglomerates, the past few years have witnessed an explosion of investment by the SOEs in areas totally unrelated to their nominal function. The electricity monopoly, EVN, for example, has been pouring money into five-star resorts even as it petitions the GVN for billions in state subsidies in order to build power plants. PetroVietnam, Tam added, has been soaking in unprecedented profits since it is allowed to keep a percentage of the value of oil sales rather than a fee per barrel. As the price of oil has skyrocket and the GVN wasted billions on fuel subsidies, nearly half of Vietnam's oil revenue is disappearing into PetroVietnam to be spent on projects that have nothing to do with Vietnam's energy security. Shortly before departing for the USA, PM Dung's office had issued a report calling for SOEs to reduce spending on projects outside their core area. The problem with the report, Tam stated, is that in it the PM states that SOEs had spend only USD 600 million on investments outside their core areas. "The SOEs made

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the Prime Minister a liar," Tam declared, since Dung had to be aware that the actual level of SOE expenditures on unrelated projects is at least USD 6 billion, or ten times the figure cited by the PM.

#### AT THE LOCAL LEVEL, AN OPPOSITE TREND

110. (C) The apparent tolerance or even institutionalization of corruption implied by the descriptions of the big SOEs as tools for political patronage stands in stark contrast to efforts being made in some areas to combat lower-level corruption. In his New Year's address, HCMC People's Committee Chair (Mayor) Quan publicly chastised all levels of the city government for failing to get a handle on corruption, stating that he is personally aware of corruption in every department -- including the department charged with fighting corruption! Deputy Mayor Thao, whose portfolio includes administrative reform, has been working to combat corruption through transparency. The city has established anonymous tip lines, suggestion boxes and even a

live call-in TV program hosted by Thao herself in order to force local administrations to operate more transparently. At Thao's insistence, the head of every district (the largest sub-unit of the city) and ward (the next smaller administrative unit) must hold an "open house" at least once a month during which they receive comments, suggestions and complaints from residents.

¶11. (C) In a meeting with the CG late last year, Thao acknowledged that combating corruption and promoting good governance is an uphill battle, but was proud of a growing list of success stories. These included the firing and even arrest of multiple top district and ward officials that resulted directly from information received from unhappy citizens. Those successes have continued to pick up steam. On August 5, HCMC anti-corruption inspectors opened the latest in what has been a series of formal corruption investigations against entire districts and city departments. These latest investigations target four districts (District 12, Thu Duc, Tan Binh and Binh Tan) three departments (Transportation, Natural Resources and Environment, and Tourism) plus the city-owned Saigon Agricultural Corporation. The opening of a formal investigation means that inspectors have already found "probable cause" and are moving toward building criminal cases. On August 7, the city announced that it was opening an investigation into the entire process used to clear land for the giant "new town" project about to begin in the city's District 2 (which is slated to become the city's new CBD). Investigators have already concluded that rules were violated in the expropriation process and that landowners were denied their rights; the only remaining questions are who is to blame and how to compensate the landowners.

¶12. (C) A growing tide of resignations by district and ward officials provides indirect evidence that the anti-corruption campaign is gaining traction. In June, virtually the entire leadership of a ward in HCMC's central District 1 resigned citing low pay. By late July, the number of District and Ward chairpersons and other top officials who had resigned had grown to 51. While the most common reason cited for the surge in resignations is low pay, city insiders and business contacts report that the pay for such officials has always been very low, typically between \$80 and \$170 a month. An underlying cause for the resignations is reportedly the city's anti-corruption program. The system described by HCMC Mayor Thanh (ref A) under which virtually every CPV member in an official post felt both at liberty and compelled to supplement his or her income through petty corruption such as kick-backs on contracts and bribes for permits is apparently drawing to a close in HCMC. Forced to live only on their meager salaries, officials are simply resigning.

#### COMMENT

¶13. (C) A small group of giant SOEs control an absolute majority of the entire Vietnamese economy and thus represent a pool of billions of dollars in potential annual spoils. Because such a rich prize is so hard to relinquish, getting control over them and instituting the kind of transparent rule of law that would ensure that control is institutionalized will undoubtedly be a tough job. Stories of PM Dung's control over SOE's abound in Hanoi as well as HCMC, along with rumors that each of many top level CPV officials is "assigned" one of them. The most disturbing aspect of these portrayals of Vietnam's largest State-owned conglomerates as a complex system of patronage is that such a system could evolve into an oligarchy that would see Vietnam develop along the lines of Indonesia or the Philippines rather than Singapore or Taiwan. On the other hand, we are hearing from our IMF contacts that information from both public and private sector bankers indicates that the PM's directive to rein in excesses by the SOE's is starting to bite. In particular, SOEs are complaining that their access to credit is being limited and they are being forced to curtail non-core projects. Another good sign is that business groups in HCMC --

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both Vietnamese and American -- who have been battling SOE

heavyweights EVN (the electricity monopoly) and PetroVietnam in efforts to construct desperately needed power plants have recently told us that their long-delayed projects are suddenly moving forward again.

¶14. (C) Whether or not this system of patronage is linked to Dung personally or is institutionalized so that it can be passed on to his successor remains to be seen, as does the impact of the policy advice being offered by many in the Vietnamese and the international financial community -- and the USG -- who are focusing on management of SOE's as Vietnam's biggest near-term challenge. What is clear is that this serves to emphasize the importance of the next 3-5 years in determining the basic direction of Vietnam's development.

¶15. (U) This cable was coordinated with Embassy Hanoi.  
FAIRFAX